

The influence of pay transparency on organizational citizenship behavior

24.05.2022

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Purpose/Motivation: Outcomes of recent institutional advances towards pay transparency on the individual level remain as unclear as resulting consequences for organizations due to scarce research. Particularly, the prevalent literature reveals a lack of studies which investigate the effect of pay transparency on organizational citizenship behavior (OCB). To provide clarity regarding the impact of pay transparency on OCB, this study uses a legislative change in Germany which requires the disclosure of selected pay-related information by regulated organizations to empirically investigate the transparency-OCB relation. To further address a common critique of pay transparency concerning potential negative effects of pay comparison among peers, relative standing is integrated as moderator to examine how the comparison of individuals' pay to that of referent others affects the link between pay transparency and OCB.

Theories/Hypotheses: Pay transparency adds a social dimension to compensation. Employees interpret the organization's motive behind the disclosure of pay related information as benevolent (Montag-Smit & Smit, 2021, pp. 722–723) because pay transparency raises the expectation that policies and practices determining the pay allocation are applied consistently and according to meritocracy (Castilla, 2015, p. 328). Accordingly, pay transparency reduces the uncertainty of the link between compensation and performance and thus improves trust in appropriate reward for future contributions (Belogolovsky & Bamberger, 2014, p. 1708; Schnackenberg & Tomlinson, 2016, p. 1797). The resulting perception of a fair pay allocation deploys a positive attitudinal effect on job satisfaction (Day, 2011, pp. 479–480; Futrell & Jenkins, 1978, p. 218). Accordingly, the employee's psychological contract with the organization (Rousseau, 1995, pp. 23–54) induces a feeling of unspecified obligation to balance out the social exchange (Heider, 1958, p. 173) which may be fulfilled with reciprocating OCB since trust, perceived fairness, and job satisfaction antecede OCB (Colquitt et al., 2012, pp. 4–5; LePine et al., 2002, p. 59). Resultingly, pay transparency may create a positive effect on OCB:

Hypothesis 1: Pay transparency positively affects OCB.

The increase of pay-related information coming along with pay transparency motivates social comparison among peers due to more accurate information on pay as positional good (Festinger, 1954, pp. 117–118; Frank, 1985, p. 101; van den Bos & Lind, 2002, pp. 6–7). Further, social processes induce the formation of fairness perceptions (Colquitt, Conlon, Wesson, Porter, & Ng, 2001, p. 426). Employees who earn more than their peers perceive that the organization fulfilled its part of the psychological contract regarding appropriate compensation as individuals attribute their beneficial relative standing to their merit performance (D. T. Miller & Ross, 1975, pp. 213–214). The resulting trust in appropriate compensation reinforces the perception of high distributive justice and facilitates job satisfaction (Day, 2011, pp. 479–480; Futrell & Jenkins, 1978, p. 218). To balance out the organization's contribution to the social exchange, employees who earn more than their peers may further increase their OCB:

Hypothesis 2.1: The positive effect of pay transparency on OCB is stronger for individuals who earn more than their peers.

In contrast, employees who earn less than their peers experience a breach of the psychological contract as they perceive that the organization failed to compensate performance appropriately. Thereby, individuals tend to attribute their deprived relative standing to non-merit factors outside of their control (D. T. Miller & Ross, 1975, pp. 213–214). The resulting mistrust in appropriate compensation reduces perceived distributive justice and further job satisfaction (Day, 2011, pp. 479–480; Futrell & Jenkins, 1978, p. 218). Consequently, employees with deprived relative standing perceive their social exchange with the organization as unbalanced and thus may reduce their OCB to restore an equitable employer-employee relationship:

Hypothesis 2.2: The positive effect of pay transparency on OCB is weaker or becomes negative for individuals who earn less than their peers.

Approach/Methodology: The study is based on survey data on the individual described further in detail by Göbel et al. (N.d., pp. 14–15). The investigation uses a legislative change in Germany named Transparency in Wage Structures Act (TWSA) as shock in a quasi-experiment which introduces a pay transparency condition to regulated firms whereas companies outside of the law's scope remain unaffected. To examine the impact of pay transparency on OCB, this study deploys a difference-in-differences (DD) estimation based on multivariate linear regressions using ordinary-least squares (OLS) for estimation (Wooldridge, 2019, pp. 431–436) to compare the development of mean OCB from before to after the introduction of the TWSA between treatment and control group. Consequently, inferences about the effect of the TWSA as transparency condition on OCB can be drawn.

Results are subsequently utilized to support or reject hypothesis 1. To test hypotheses 2 and 3, a difference-in-difference-in-differences estimator (DDD) also based on multivariate linear regression using OLS for estimation (Wooldridge, 2019, pp. 436–437) is applied to support or reject the moderation of the pay transparency-OCB link by relative standing.

Findings: Contrary to expectations, pay transparency unfolds a significant negative effect on OCB while a moderation by relative standing cannot be supported.

Research Limitations: The most constraining factors are twofold. First, to define a peer group more precisely, team level data would be needed. The lack of such data might blur effects associated with relative standing. Second, the findings regarding pay transparency are based on the introduction of the TWSA as transparency condition. Hence, transferability of the findings may be limited because different forms of pay transparency created via laws with specifications other than those of the TWSA may lead to differential outcomes.

Research Implications: In joint consideration with other studies, findings imply that different forms of pay transparency can create varying consequences for OCB.

Practical Implications: The results aim to raise awareness among managers that disclosing pay-related information with little informativeness, or refrained disclosure are not optimal responses to regulatory changes towards more pay transparency as such strategies may result in a detrimental effect of pay transparency on OCB.

Contribution: The study adds to the prevalent pay transparency literature by clarifying the effect of selective pay transparency as created by the TWSA on OCB which differs from theoretical predictions and thus highlights the need for a more nuanced approach to different forms of pay transparency. Further, a common critique of pay transparency is addressed by testing relative standing as moderator with insignificant results.

Paper type: empirical

Further readings:

Göbel, L., Weller, I., & Nyberg, A. J. (2020). How Employers and Employees React to Rising Pay Transparency Expectations: An Exploratory Study. *Academy of Management Proceedings*, 2020(1), 17109. <https://doi.org/10.5465/AMBPP.2020.130>

SimanTov-Nachlieli, I., & Bamberger, P. (2021). Pay communication, justice, and affect: The asymmetric effects of process and outcome pay transparency on counterproductive workplace behavior. *The Journal of Applied Psychology*, 106(2), 230–249. <https://doi.org/10.1037/apl0000502>